

**Leland Public School**

**FINANCIAL STATEMENTS  
AND REPORT OF INDEPENDENT  
CERTIFIED PUBLIC ACCOUNTANTS**

June 30, 2008

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# Management's Discussion and Analysis

For the year ended June 30, 2008

The discussion and analysis of the Leland Public School District's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2008. Please read this analysis in conjunction with the District's financial statements, which immediately follow this section.

## DESCRIPTION OF REPORTING ENTITY AND SERVICES PROVIDED

Leland School District is one of the few remaining one building schools in Michigan. The District is located in Leelanau County. Leland Public School serves students in grades Kindergarten through 12<sup>th</sup> grade. In addition to a full college preparatory curriculum offered on the Leland campus, Leland staff members teach non-core subjects such as fine arts, foreign language, and technology at the nearby parochial school. Students attending the District are afforded individualized attention due to small class sizes. Educators in the District are committed to the philosophy that all children are capable of learning if they have the appropriately specified learning tasks and a suitable amount of time commensurate with their individual learning rates. Leland Public School District offers a core academic curriculum that meets and/or exceeds state guidelines at all levels. The population for the 2007-2008 school year was 510 pupils.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three sections presented in the following order: Management's discussion and analysis, the basic financial statements, and required supplementary information. The basic financial statements include several kinds of statements that present different views of the District:

- The first two statements are *district-wide financial statements* that provide comprehensive *short-term* and *long-term* financial information about the District as a whole.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District's operations *in more detail* than the district-wide statements.
- The *governmental funds* statements tell how *basic* services like regular and special education were financed in the *short-term* as well as what remains for future spending.
- *Fiduciary funds* statements provide information about assets held by the District in a *trustee* or *agent* capacity.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data and supporting documentation. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged.

**Figure A-1**

## **District Financial Report Organization**

### **Management's Discussion and Analysis (MD&A)** (Required Supplemental Information)

### **Basic Financial Statements**

District-wide Financial Statements

Fund Financial Statements

### **Notes to Basic Financial Statements**

Budgetary Information for Funds  
(Required Supplemental Information)

### **Other Supplemental Information**

## **DISTRICT-WIDE STATEMENTS**

The district-wide statements provide comprehensive information about the entire District using the accrual basis of accounting which is similar to the method used by private-sector companies. The statement of net assets includes all of the District's assets and liabilities and the difference between the two, which is net assets. The statement of activities accounts for all of the current year's revenues and expenses regardless of when cash is received or paid.

The statement of net assets and statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction and supporting services. Unrestricted State Aid and property taxes finance most of these activities.

The two district-wide statements report the District's *net assets* and how they have changed. Examining net assets is one way to measure the District's financial health or *position*. Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or declining. The relationship between revenues and expenses is the District's operating results, or in other terms, whether the District had a profit or a loss at year end. However, the District's mission is not simply to generate profits, as may be the case for a commercial entity.

## **FUND FINANCIAL STATEMENTS**

The fund financial statements provide more detailed information about the District's funds. Each major fund is presented in a separate column. Non-major funds are aggregated and displayed in a single column. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. Some funds are required by State law and by bond covenants. The District has two kinds of funds:

### ***Governmental funds:***

All of the District's basic services are included in governmental funds. Governmental fund reporting generally focuses on how dollars flow in and out of the funds and the balances left at year-end. These balances are reported using the modified accrual basis of accounting. Revenues are recognized when they are measurable and available. Expenditures are recorded when the related fund liability is incurred. The governmental fund statements provide a detailed short-term view of the operations of the District and the services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The relationship or differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds are presented in a reconciliation displayed further in our documentation. The District's major governmental fund is the general fund.

### ***Fiduciary Funds:***

The District is the Trustee, or fiduciary, for assets that belong to others. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes, and only by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations. For example, the Student Activities Account is accounted for as a fiduciary fund.

## The District as a Whole

Recall that the statement of net assets provides the perspective of the District as a whole. Table 1 provides a summary of the District's net assets as of June 30, 2008:

**TABLE 1**

	<u>Governmental Activities</u>		
	<u>June 30, 2007</u>	<u>June 30, 2008</u>	<u>% Change</u>
Assets			
Current and other assets	\$ 1,219,793	\$ 1,265,023	3.7 %
Capital assets	<u>9,553,906</u>	<u>9,350,326</u>	<u>(2.1) %</u>
Total assets	<u>10,773,699</u>	<u>10,615,349</u>	<u>( 1.5) %</u>
Liabilities			
Current liabilities	1,005,239	1,089,458	8.4 %
Long-term liabilities	<u>7,586,252</u>	<u>7,187,600</u>	<u>(5.3) %</u>
Total liabilities	<u>8,591,491</u>	<u>8,277,058</u>	<u>(3.7) %</u>
Net Assets Invested in			
Property and Equipment –			
Net of related debt	1,806,109	1,930,933	6.9%
Restricted for			
Capital Projects	101,959	124,448	22.1 %
Debt Service	99,334	116,267	17.0 %
School-based activities	23,967	16,636	(30.6) %
Unrestricted	<u>150,839</u>	<u>150,007</u>	<u>(.6) %</u>
Total net assets	<u>\$2,182,208</u>	<u>\$2,338,291</u>	<u>7.2 %</u>

The above analysis focuses on the net assets (see Table 1). The District's net assets were \$2,182,208 at June 30, 2007 and \$2,338,291 at June 30, 2008. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the District's ability to use those net assets for day-to-day operations. The District has restricted net assets. The remaining amount of net assets \$150,839 and \$150,007 in 2007 and 2008, respectively, was unrestricted.

The unrestricted net assets of governmental activities represent the accumulated results of all past years' operations. It means that if we had to pay off all of our bills today, including all of our non-capital liabilities; we would have \$150,839 and \$150,007 remaining at June 30, 2007 and 2008, respectively. The operating results of the District will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the District as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for fiscal year 2008. Revenue and expense for fiscal year 2007 is also shown for comparison purposes.

**TABLE 2**

Governmental Activities

	<u>June 30, 2007</u>	<u>June 30, 2008</u>	<u>% Change</u>
<b>Program Revenues:</b>			
Charges for services	\$ 155,531	\$ 160,726	3.3%
Operating grants and contributions	509,119	476,681	(6.4)%
General revenue:			
Property taxes			
Levied for general purpose	2,823,618	3,228,890	14.4%
Levied for debt service	750,918	765,340	1.9%
Levied for sinking fund	0	139,137	-%
State School Aid- unrestricted	1,165,031	983,062	(15.6)%
Grants and contributions- unrestricted	99,491	210,348	111.4%
Other	<u>101,628</u>	<u>101,128</u>	<u>(.5)%</u>
Total revenues	<u>\$ 5,605,336</u>	<u>\$6,065,312</u>	<u>8.2%</u>
<b>Functions/Program Expenses:</b>			
Instruction	\$2,856,224	\$3,129,651	9.6%
Support services	1,510,076	1,619,226	7.2%
Food Service	239,057	257,941	7.9%
Athletic	113,302	108,428	(4.3)%
Other transactions	12,295	52,004	323.0%
Interest on Long Term Debt	392,013	377,347	(3.7)%
Depreciation (unallocated)	<u>410,196</u>	<u>364,632</u>	<u>(11.1)%</u>
Total expenses	<u>\$5,533,163</u>	<u>\$5,909,229</u>	<u>6.8%</u>
Increase (Decrease) in Net Assets	72,173	156,083	116.3%
Net assets, beginning of year	<u>2,110,035</u>	<u>2,182,208</u>	<u>3.4%</u>
Net assets, end of the year	<u>\$2,182,208</u>	<u>\$2,338,291</u>	<u>7.2%</u>

As reported in the statement of activities, the cost of all of our governmental activities this year was \$5,909,229. Certain activities were partially funded from those who benefited from the programs (\$160,726) or by other grants and contributions (\$476,681). We paid for the remaining “public benefit” portion of our governmental activities with \$3,228,890 in taxes, \$983,062 in State Aid and with our other revenues including interest and general entitlements.

The District experienced an increase in net assets. Key reasons for the change in net assets were due to replacement of an old bus with little value with a new one, technology purchases made through our public improvement fund, and upgrades made through the “sinking” fund.

As discussed above, the net cost shows the financial burden that was placed on the State and the District’s taxpayers by each of these functions. Since property taxes for operations and unrestricted State Aid constitute the vast majority of District operating revenue sources, the School Board and Administration must annually evaluate the needs of the District and balance those needs with State allocated available unrestricted resources.

## **The District’s Funds**

As noted earlier, the District uses fund accounting to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the District’s overall financial health. The District’s budgets are prepared according to Michigan law. The most significant budgeted fund is the General Fund. The General Fund is the main operating fund of the District. All other funds would be used to account for the proceeds from specific revenue sources that are legally restricted to certain types of expenditures.

As the District completed this year, the general fund reported a fund balance of \$373,326, which is a reduction of \$50,914 from the prior year. The primary reasons for the decrease are:

- Increased student enrollment created the need to hire additional teachers.
- Fuel prices increased dramatically during the school year
- Additional staff and supplies were needed to meet the new Michigan high school curriculum and high school graduation requirements



## Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with numerous changes in expected revenues and expenditures. The Uniform Budget Act of the State of Michigan requires that the Board of Education adopt a budget for the upcoming school year prior to July 1, which is the start of the new fiscal year. The District revised its budget three times during the fiscal year. Under normal circumstances, the District adjusts its budget to reflect a wide variety of federal and state funding sources, many of which are not finalized until well after the District's original budget is required to be adopted. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations.

A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements. Changes to the general fund budget were as follows:

- One of the increases in revenues was due to a larger than expected State of Michigan Child Readiness and At Risk grants and Federal REAP Grant
- Increases in expenditures include the distribution of the above noted grants, greater than expected special education aide costs for a pre-primary child, additional teaching staff and greater than planned special education transportation bill back.

## Capital Asset and Debt Administration

### Capital Assets

At June 30, 2008, the District had \$9,350,326 invested in a range of capital assets including buildings, furniture, equipment and vehicles summarized as follows:

	<u>Balance June 30, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2008</u>
Capital Asset	\$14,339,151	\$ 133,558	\$(145,094)	\$14,327,615
Less: Accum Depreciation	<u>(4,785,245)</u>	<u>(337,138)</u>	<u>145,094</u>	<u>(4,977,289)</u>
Total Capital Assets, Net	<u>\$ 9,553,906</u>	<u>\$(203,580)</u>	<u>\$ 0</u>	<u>\$ 9,350,326</u>

### Debt

At June 30, 2007, the District had \$7,644,063 debt owing.

## **Economic Factors and Next Year's Budgets and Rates**

At the time these financial statements were prepared and audited, the District was aware of a number of circumstances that could significantly affect the financial health of Leland Public School District.

- Pressures of health insurance premiums are a continuing problem. Unless a state-wide system is put in place, we expect to see double digit increases in premiums each year.
- Federal Title monies have again been reduced yet the mandated programs have increased. We have been told to expect 15% reduction in Title program monies each year.
- The State of Michigan reviewed retirement system investments and again reduced the MPSERS rate. We have a concern that the new information on MIP investments is overly optimistic. Unless major changes are made to the system, we expect to see large rate increases in the near future.
- For the sixth year in a row, the actual or proposed student foundation grant allowance increase is below the cost of living increase yet the demand for additional programs by the school systems has increased. This greatly stresses the already weak financial position of most schools.
- An entitlement payment of approximately \$300,000 for the loss of local tax revenue due to the taking of school district lands by the federal government is expected during the 2008-2009 school year. This entitlement money will help provide greater financial stability for the District.

## **Contacting the School District's Financial Management**

This financial report is designed to provide the District's citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact Sandy Potts, Business Manager, at Leland Public School District, P.O. Box 498, Leland, MI 49654, Fax (231) 256-9844, Telephone (231) 256-9857.



Business and Financial Advisors  
*Our clients' success – our business*

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## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Education  
Leland Public School

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of **Leland Public School** (the "School District") as of and for the year ended June 30, 2008, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Leland Public School as of June 30, 2008, and the respective changes in the financial position thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2008 on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions, laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

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The management's discussion and analysis on pages i - viii and the budgetary comparison information on page 24 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The combining non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining non-major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Dennis, Gartland & Niergarth*

October 2, 2008

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# Leland Public School

## STATEMENT OF NET ASSETS

June 30, 2008

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Current assets	
Cash and cash equivalents	\$ 1,009,624
Due from other governments	249,411
Accounts receivable	268
Inventory	<u>5,720</u>
Total current assets	1,265,023
Capital assets, net of accumulated depreciation	<u>9,350,326</u>
Total assets	<u><u>\$ 10,615,349</u></u>
<b>LIABILITIES AND NET ASSETS</b>	
<b>LIABILITIES</b>	
Current liabilities	
Accounts payable	\$ 71,810
Salaries payable and related expenses	502,298
Accrued expenses	58,887
Current portion of long-term liabilities	<u>456,463</u>
Total current liabilities	1,089,458
Non-current portion of long-term obligations	<u>7,187,600</u>
Total liabilities	<u>8,277,058</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	1,930,933
Restricted for	
Public Improvements	124,448
Debt Service	116,267
Food Service	16,636
Unrestricted	<u>150,007</u>
Total net assets	<u>2,338,291</u>
Total liabilities and net assets	<u><u>\$ 10,615,349</u></u>

The accompanying notes are an integral part of these financial statements.

# Leland Public School

## STATEMENT OF ACTIVITIES

Year Ended June 30, 2008

Functions/Program	Expenses	Program Revenues		Net (Expense)
		Charges For Services	Operating Grants and Contributions	Revenue and Changes Net Assets Governmental Activities
Governmental activities				
Instruction	\$ 3,129,651	\$ -	\$ 354,959	\$ (2,774,692)
Supporting Services	1,619,226	-	-	(1,619,226)
Food Service	257,941	125,445	121,722	(10,774)
Athletics	108,428	35,281	-	(73,147)
Other	52,004	-	-	(52,004)
Interest on long-term debt	377,347	-	-	(377,347)
Depreciation-unallocated	<u>364,632</u>	<u>-</u>	<u>-</u>	<u>(364,632)</u>
Total governmental activities	<u>\$ 5,909,229</u>	<u>\$ 160,726</u>	<u>\$ 476,681</u>	<u>(5,271,822)</u>
General purpose revenues				
Property taxes				
Levied for general purposes				3,228,890
Levied for Debt Service				765,340
Levied for Sinking Fund				139,137
State school aid - unrestricted				983,062
Grants and contributions not restricted to specific program				210,348
Investment and other				<u>101,128</u>
Total general purpose revenues				<u>5,427,905</u>
Change in net assets				156,083
Net assets, beginning of year				<u>2,182,208</u>
Net assets, end of year				<u>\$ 2,338,291</u>

-5- The accompanying notes are an integral part of these financial statements.

# Leland Public School

## BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2008

	General Fund	2001 Debt Retirement Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 629,218	\$ 188,526	\$ 191,880	\$ 1,009,624
Due from other governments	249,411	-	-	249,411
Accounts receivable	-	-	268	268
Due from other funds	172,674	-	105,644	278,318
Inventory	1,775	-	3,945	5,720
Total assets	<u>\$ 1,053,078</u>	<u>\$ 188,526</u>	<u>\$ 301,737</u>	<u>\$ 1,543,341</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable and accrued expenses	\$ 574,108	\$ -	\$ -	\$ 574,108
Due to other funds	105,644	13,372	159,302	278,318
Total liabilities	<u>679,752</u>	<u>13,372</u>	<u>159,302</u>	<u>852,426</u>
<b>FUND BALANCES</b>				
Reserved for debt retirement	-	175,154	-	175,154
Reserved for public improvements	-	-	124,448	124,448
Reserved for Food Service	-	-	12,691	12,691
Reserved for prepaid expenses and inventory	1,775	-	3,945	5,720
Reserved for Athletics	-	-	1,351	1,351
Undesignated and unreserved reported in the General Fund	<u>371,551</u>	<u>-</u>	<u>-</u>	<u>371,551</u>
Total fund balances	<u>373,326</u>	<u>175,154</u>	<u>142,435</u>	690,915
Total liabilities and fund balances	<u>\$ 1,053,078</u>	<u>\$ 188,526</u>	<u>\$ 301,737</u>	

### Reconciliation of Governmental Fund Balances to District-Wide Government Activities Net Assets

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$14,355,109 and the accumulated depreciation is \$(5,004,783).

9,350,326

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

Bonds payable	\$ 7,480,000	
Loans payable	62,153	
Accrued interest on bonds	58,887	
Unamortized bond discount and issuance costs	(122,760)	
Early retirement payable	123,798	
Accumulated leave liability	<u>100,872</u>	<u>(7,702,950)</u>

Total net assets - governmental activities

\$ 2,338,291

The accompanying notes are an integral part of these financial statements.

# Leland Public School

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

Year Ended June 30, 2008

	General Fund	2001 Debt Retirement Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
Property taxes	\$ 3,228,890	\$ 765,340	\$ 139,137	\$ 4,133,367
Interest	72,871	22,830	5,427	101,128
State revenues	1,249,223	-	12,022	1,261,245
Federal revenues	88,798	-	109,700	198,498
Other	<u>210,348</u>	<u>-</u>	<u>160,726</u>	<u>371,074</u>
Total revenues	<u>4,850,130</u>	<u>788,170</u>	<u>427,012</u>	<u>6,065,312</u>
Expenditures				
Current				
Instruction	3,182,436	-	-	3,182,436
Supporting Services	1,619,640	-	-	1,619,640
Food Service	-	-	257,941	257,941
Athletics	-	-	108,428	108,428
Other	3,861	4,882	43,261	52,004
Debt Service				
Principal	9,567	400,000	-	409,567
Interest	1,549	368,964	-	370,513
Capital outlay	<u>82,711</u>	<u>-</u>	<u>77,927</u>	<u>160,638</u>
Total expenditures	<u>4,899,764</u>	<u>773,846</u>	<u>487,557</u>	<u>6,161,167</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(49,634)</u>	<u>14,324</u>	<u>(60,545)</u>	<u>(95,855)</u>
Other financing sources (uses)				
Operating transfers in	-	-	73,000	73,000
Operating transfers out	(73,000)	-	-	(73,000)
Proceeds from loan	<u>71,720</u>	<u>-</u>	<u>-</u>	<u>71,720</u>
Total other financing sources (uses)	<u>(1,280)</u>	<u>-</u>	<u>73,000</u>	<u>71,720</u>
<b>REVENUE OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)</b>	(50,914)	14,324	12,455	(24,135)
Fund balance, beginning of year	<u>424,240</u>	<u>160,830</u>	<u>129,980</u>	<u>715,050</u>
Fund balance, end of year	<u><u>\$ 373,326</u></u>	<u><u>\$ 175,154</u></u>	<u><u>\$ 142,435</u></u>	<u><u>\$ 690,915</u></u>

The accompanying notes are an integral part of these financial statements.



## Leland Public School

### RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES WITH THE DISTRICT-WIDE STATEMENT OF ACTIVITIES

Year Ended June 30, 2008

<b>Total Net Change in Fund Balances - Governmental Funds</b>	\$ (24,135)
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Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays to purchase or build capital assets are reported in the governmental funds as expenditures. However, costs that meet the capitalization policy are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which depreciation exceeds capital outlays in the period.

Capital outlays \$ 161,052	
Depreciation expense <u>(364,632)</u>	(203,580)

In the statement of activities, certain operating expenses - compensated absences - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, sick time used was more than the amounts earned by \$4,343. Accumulated termination pay earned was less than amounts paid by \$48,442.	52,785
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Repayment of bond and loan principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.	409,567
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Some of the capital assets acquired this year were financed with loan proceeds. The amount financed by the loan proceeds is reported in the governmental funds as a source of financing. On the other hand, the loan proceeds are not revenues in the statement of activities but rather constitute long-term liabilities in the statement of net assets.	(71,720)
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Amortization of bond issuance costs and bond discount	(9,443)
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Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The interest reported in the statement of activities is the net result of the decrease in accrued interest on bonds payable.	<u>2,609</u>
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<b>Changes in Net Assets of Governmental Activities</b>	<u><u>\$ 156,083</u></u>
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# Leland Public School

## STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2008

	Private Purpose Trust Funds	Agency Funds	Total
<b>ASSETS</b>			
Cash and investments	<u>\$ 67,319</u>	<u>\$ 130,564</u>	<u>\$ 197,883</u>
<b>LIABILITIES AND NET ASSETS</b>			
<b>LIABILITIES</b>			
Due to student groups	\$ -	\$ 130,564	\$ 130,564
<b>NET ASSETS</b>			
Reserved for scholarships	<u>67,319</u>	<u>-</u>	<u>67,319</u>
Total liabilities and net assets	<u>\$ 67,319</u>	<u>\$ 130,564</u>	<u>\$ 197,883</u>

# Leland Public School

## STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

Year Ended June 30, 2008

	Private Purpose Trust Funds
Additions	
Contributions	\$ 9,075
Interest	<u>6,104</u>
Total additions	15,179
Deductions	
Scholarships awarded	<u>9,961</u>
<b>Change in net assets</b>	5,218
Net assets, beginning of year	<u>62,101</u>
Net assets, end of year	<u><u>\$ 67,319</u></u>

# **Leland Public School**

## **NOTES TO FINANCIAL STATEMENTS**

### **NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### ***Introduction***

Leland Public School (the "School District") is a Michigan public school district consisting of one K-12 building. The School District also provides staff for St. Mary's School of Lake Leelanau. The School District primarily serves the Leland community. As of June 30, 2008, the School District employed 41 professional staff and 32 non-professional staff and has 520 students enrolled within its School District.

The accounting policies of the School District conform to generally accepted accounting principles as applicable to governments. The School District is considered to be a local government unit.

The accounting and reporting framework and the more significant accounting principles and practices of the School District are discussed in subsequent sections of this note. The remainder of the notes are organized to provide explanations, including required disclosures, of the School District's financial activities for the fiscal year ended June 30, 2008.

#### ***Financial Reporting Entity***

Leland Public School's Board of Education (the "Board") is the basic level of government which has oversight responsibility and control over all activities related to the public school education. The Board receives funding from local, State and Federal government sources and must comply with the concomitant requirements of these funding source entities. However, the Board is not included in any other governmental "reporting entity," as defined in Governmental Accounting Standards Board ("GASB") Statement No. 14, since Board members are elected by the public and have decision-making authority to levy taxes, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters. In addition, under the criteria of the GASB pronouncement, student, parent and teacher organizations are not included, except to the extent that the School District holds assets in the capacity of an agent.

#### ***District-Wide and Fund Financial Statements***

##### ***District-Wide Financial Statements***

The statement of net assets and statement of activities display information about the School District as a whole, except for its fiduciary activities. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and School District general revenues.

## NOTES TO FINANCIAL STATEMENTS - Continued

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the School District's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

### *Fund Financial Statements*

The balance sheet and statement of revenues, expenditures and changes in fund balances (i.e., fund financial statements) for the School District's governmental funds are presented after the government-wide statements. These statements display information about major funds individually and non-major funds in the aggregate for governmental funds. Major funds are generally those that represent 10% or more of governmental fund assets, liabilities, revenues or expenditures.

### *Measurement Focus, Basis of Accounting and Financial Statement Presentation*

The financial statements of the School District are prepared in accordance with Generally Accepted Accounting Principles ("GAAP"). The School District's reporting entity applies all relevant Governmental Accounting Standards Board ("GASB") pronouncements and applicable Financial Accounting Standards Board ("FASB") pronouncements and Accounting Principles Board ("APB") opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The School District's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The district-wide statements report using the economic resource measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Reimbursements are reported as reductions to expenses. Proprietary and fiduciary fund financial statements also report using this same focus and basis of accounting, although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The School District considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

## NOTES TO FINANCIAL STATEMENTS - Continued

Major revenue sources susceptible to accrual include property taxes, intergovernmental revenues and investment income. In general, other revenues are recognized when cash is received.

When both restricted and unrestricted resources are available for use, it is the School District's policy to use restricted resources first, then unrestricted resources as needed.

### ***Fund Types and Major Funds***

#### ***Activities in Major Funds***

The General Fund is the general operating fund of the School District. It is used to account for all financial resources except those required to be accounted for in another fund.

The 2001 Debt Retirement Fund is used to account for the accumulation of resources for, and the payment of, bond principal, interest and related costs.

#### ***Other Governmental Funds***

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The School Service Funds are Special Revenue Funds that segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. The School District maintains full control of these funds. The School Service Funds maintained by the School District are the Athletic Fund and Food Service Fund.

The Public Improvement Fund is a capital project fund and is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

The Infrastructure Improvement Fund is a capital project fund and is used to account for a sinking fund tax levy to be used for construction or a repair of various School District property.

#### ***Fiduciary Funds***

Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. Fiduciary Fund net assets and results of operations are not included in the government-wide statements. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

### ***Cash and Equivalents***

The School District's reporting entity considers highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

### ***Inventories***

Inventories in governmental funds consist of expendable supplies held for consumption stated on a first-in, first-out basis. They are reported at cost, which is recorded as an expenditure at the time individual inventory items are used.

## NOTES TO FINANCIAL STATEMENTS - Continued

### ***Capital Assets***

Capital assets are recorded at cost or, if donated, the fair value at the time of donation. Capital assets are depreciated over their estimated useful lives ranging from 5 to 40 years. The School District generally capitalizes assets with a cost of \$5,000 or more as purchase and construction outlays occur. No depreciation is recorded on land or construction-in-process. Expenditures for major renewals and betterments that extend the useful lives of the capital assets are capitalized. Expenditures for maintenance and repairs are charged to current expenditures as incurred. Depreciation is computed using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings	50 years
Improvements, other than buildings	5 years
Buses and vehicles	7 years
Furniture and equipment	3-20 years

### ***Long-Term Debt, Deferred Debt Expense and Bond Discounts/Premiums***

In the district-wide financial statements, outstanding debt is reported as a liability. Bond issuance costs, bond discounts or premiums, and the difference between the reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the interest method.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

### ***Fund Equity***

The governmental fund financial statements report reserved fund balance for amounts not available for appropriation or legally restricted for specified purposes.

### ***Allocation of Expenses***

The School District reports each function's direct expenses, those that are specifically associated with a service, program or department and, thus, are clearly identifiable to a particular function.

The School District has elected to not allocate indirect expenses.

### ***Use of Estimates in the Preparation of Financial Statements***

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

## NOTES TO FINANCIAL STATEMENTS - Continued

### ***Program Revenues***

Program revenues derive directly from the program itself or from outside parties for the restricted use in a particular program. On the statement of activities, program revenues reduce the net cost of the various functions to reflect the amount which is financed from the School District's general revenues.

The School District's most significant program revenues are Title I, At-Risk and School Lunch Program, which are reported as operating grants and contributions.

### **NOTE B - BUDGETARY POLICY AND PRACTICE**

#### ***Excess of Expenditures over Appropriations in Budgeted Funds***

Michigan Public Act 621 of 1978 provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended June 30, 2008, the School District was out of compliance with the Act as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
Instruction	\$ 3,149,490	\$ 3,182,436	\$ (32,946)
Supporting Services	1,625,227	1,645,608	(20,381)

The general fund budget is adopted on a budgetary basis which does not consider other financing sources and related capital outlay of \$71,720.

### **NOTE C - CASH AND INVESTMENTS**

At June 30, 2008, the School District's cash and cash equivalents include the following:

Bank deposits and cash on hand	\$ 560,927
Certificates of Deposit	38,702
Investment pools ("MILAF")	<u>607,878</u>
	<u>\$ 1,207,507</u>

#### ***Custodial Credit Risk - Deposits***

In the event of a bank failure, the School District's deposits (including certificates of deposit) may not be returned to it. As of June 30, 2008, \$238,702 of the School District's bank deposits were insured. The remaining balance of \$377,661 was exposed to custodial credit risk because it was uninsured and uncollateralized.

#### ***Investments***

The School District's investment policy permits investments in the following vehicles:

1. Bonds and other obligations of the United States Government.
2. Certificates of deposit and savings accounts of banks or credit unions who are members of the FDIC and FSLIC, respectively.
3. Certain commercial paper rated prime 1 or prime 2 at the time of purchase and maturing not more than 270 days after the date of purchase.



## NOTES TO FINANCIAL STATEMENTS - Continued

4. United States Government repurchase agreements.
5. Banker's acceptance of United States banks.
6. Certain mutual funds.
7. Securities issued or guaranteed by agencies of the United States government.
8. Michigan Investment Liquid Asset Fund Plus ("MILAF")

The School District's investments have the following maturities:

Investment Type	Fair Value	Investment Maturities (in years)			
		Current	1-5	6-10	More than 10
Certificates of Deposit	\$ 38,702	\$ 12,000	\$ 26,702	\$ -	\$ -
Investment pools	<u>607,878</u>	<u>607,878</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 646,580</u>	<u>\$ 619,878</u>	<u>\$ 26,702</u>	<u>\$ -</u>	<u>\$ -</u>

### *Interest Rate Risk*

In accordance with the School District's investment policy, the School District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fail due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in short-term securities, liquid asset funds, money market funds, or similar investment pools, and limiting the average maturity in accordance with the School District's cash requirements.

### *Credit Risk*

The School District's investment in the MILAF investment pool was rated AAAM by Standard and Poor's.

## **NOTE D - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS AND DEFERRED REVENUE**

### ***Property Taxes Receivable, Deferred Revenue and Property Tax Calendar***

Property taxes are levied, billed and attached as enforceable liens in July and December of the School District's fiscal year. Townships within the School District collect and remit taxes until February 15, at which time the uncollected real property taxes are turned over to the counties as delinquent. Delinquent real property taxes are funded by the county and remitted to the School District. Delinquent personal property tax remains a receivable until collected from the taxpayer by the townships and remitted to the School District. In the governmental fund financial statements, if delinquent taxes are not paid within 60 days of year-end, they are recorded as deferred revenue. In the district-wide financial statements, property taxes receivable and related revenue include all amounts due the School District regardless of when cash is received. Over time, substantially all property taxes are collected.

## NOTES TO FINANCIAL STATEMENTS - Continued

During the fiscal year, \$10.9013 per \$1,000 of equalized non-homestead property value of \$289 million was levied for general operating purposes. For debt service purposes, \$1.65 per \$1,000 of equalized homestead and non-homestead property value of \$463 million was levied for bonded debt repayments by the Debt Service Fund. For sinking fund purposes, \$0.30 per \$1,000 of equalized homestead and non-homestead property value of \$463 million was levied.

### *Intergovernmental Receivables and Deferred Revenue*

Intergovernmental receivables are primarily comprised of amounts due from the State and Federal governments. Revenue is recorded as earned when eligibility requirements are met. Grant revenues deferred in the governmental fund financial statements include unearned revenue and revenue received more than 60 days following year-end (unavailable to pay liabilities of the current period). Deferred revenue received after 60 days is fully recognized as revenue in the district-wide statements if grantor eligibility requirements are met.

Amounts due from other governments at June 30, 2008 are as follows:

Due from the State of Michigan	
State Aid	\$ 205,328
Other	<u>44,083</u>
	<u><u>\$ 249,411</u></u>

## **NOTE E - INVESTMENTS IN CAPITAL ASSETS**

Investments in capital assets consist of the following:

	<u>July 1, 2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2008</u>
Buildings and improvements	\$ 10,872,381	\$ -	\$ -	\$ 10,872,381
Furniture and equipment	3,028,189	61,838	-	3,090,027
Buses and vehicles	<u>438,581</u>	<u>71,720</u>	<u>(145,094)</u>	<u>365,207</u>
Total depreciable assets	14,339,151	133,558	(145,094)	14,327,615
Less accumulated depreciation	(4,785,245)	(364,632)	145,094	(5,004,783)
Construction-in-process	<u>-</u>	<u>27,494</u>	<u>-</u>	<u>27,494</u>
Total capital assets, net	<u><u>\$ 9,553,906</u></u>	<u><u>\$ (203,580)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 9,350,326</u></u>

Depreciation expense was charged to the function in the statement of activities, as follows:

Unallocated	<u><u>\$364,632</u></u>
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NOTES TO FINANCIAL STATEMENTS - Continued

**NOTE F - LONG-TERM LIABILITIES**

Changes in long-term liabilities during the year ended June 30, 2008 were as follows:

	<u>Beginning Balance</u>	<u>New Debt</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Current Portion</u>
General obligation bonds	\$ 7,880,000	\$ -	\$ 400,000	\$ 7,480,000	\$ 420,000
Unamortized bond discount and issuance costs	(132,203)	-	(9,443)	(122,760)	(9,443)
Bus loan	-	71,720	9,567	62,153	13,611
Accumulated leave liability	105,215	-	4,343	100,872	-
Early retirement incentives	<u>172,240</u>	<u>-</u>	<u>48,442</u>	<u>123,798</u>	<u>32,295</u>
Long-term liabilities	<u>\$ 8,025,252</u>	<u>\$ 71,720</u>	<u>\$ 452,909</u>	<u>\$ 7,644,063</u>	<u>\$ 456,463</u>

Payments on general obligation bonds are made by the Debt Service Fund. The accumulated leave liability and early retirement payable will be liquidated primarily by the General Fund.

At June 30, 2008, the School District's long-term debt consisted of the following:

\$9,720,000; 2001 Building and Site and Refunding Bonds; due in annual installments of \$155,000 to \$750,000 through May 1, 2021; interest rate of 4.25% to 4.875%.	\$ 7,480,000
Note payable, secured by a bus purchased for \$71,720; due in monthly installments of \$1,337 through September 2012; interest rate of 4.35%.	62,153
Unamortized bond discount and issuance costs	(122,760)
Accumulated leave liability	100,872
Early retirement incentives	<u>123,798</u>
Total long-term liabilities	<u>\$ 7,644,063</u>

Total annual requirements to amortize bonds outstanding as of June 30, 2008 are as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 420,000	\$ 351,974
2010	440,000	334,124
2011	465,000	315,424
2012	490,000	294,499
2013	515,000	272,449
2014 - 2018	2,985,000	969,894
2019 - 2023	<u>2,165,000</u>	<u>214,012</u>
	<u>\$ 7,480,000</u>	<u>\$ 2,752,376</u>

## NOTES TO FINANCIAL STATEMENTS - Continued

Total annual requirements to amortize loans outstanding as of June 30, 2008 are as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 13,611	\$ 2,434
2010	14,213	1,831
2011	14,845	1,199
2012	15,503	541
2013	<u>3,981</u>	<u>29</u>
	<u>\$ 62,153</u>	<u>\$ 6,034</u>

Interest expense for the year ended June 30, 2008 was \$377,347, and interest paid for the year ended June 30, 2008 was \$370,513.

### ***Accumulated Leave Liability***

As of June 30, 2008, a potential liability for sick pay of up to \$811,060 had accumulated to employees; this amount is not vested. However, as an employee becomes eligible for retirement, 10.0% of their sick pay balance plus FICA and retirement will be paid to them upon retirement. The School District has used the retirement value method to estimate the probable amount to be paid.

### ***Early Retirement Incentives***

During the fiscal year ended June 30, 1998, the School District adopted an early retirement program. The net present value of early retirement incentives due to participants at June 30, 2008 is \$123,798.

## **NOTE G - RISK MANAGEMENT**

The School District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; unemployment benefits; and natural disasters. The School District manages its risk exposures and provides certain employee benefits through a combination of self-insurance and risk management pools.

The School District pays unemployment claims on a reimbursement basis. No significant claims are known to exist.

The School District participates in SET-SEG's risk management pools for worker's compensation claims, liability insurance and errors and omissions coverages. SET-SEG was established pursuant to laws of the State of Michigan which authorize local units of government to jointly exercise any power, privilege or authority which each might exercise separately. The purpose of SET-SEG is to provide cooperative and comprehensive risk financing and risk control services. SET-SEG provides risk management, underwriting, reinsurance and claim review and processing services for all member governments pursuant to its charter.

## NOTES TO FINANCIAL STATEMENTS - Continued

The School District makes annual contributions to SET-SEG based on actuarial studies using historical data and insurance industry statistics. These contributions are paid from the General Fund. Such contributions as received by SET-SEG are allocated between its General and Member Retention Funds. Economic resources in SET-SEG's General Fund are expended for reinsurance coverage, claim payments and certain general and administrative costs, whereas resources in the Member Retention Fund are used for loss payments and defense costs up to the member's self-insurance retention limits along with certain other member-specific costs. Any refunds from SET-SEG are deposited in the School District's General Fund.

### NOTE H - BALANCES AND TRANSFERS/PAYMENTS WITHIN THE REPORTING ENTITY

#### *Receivables and Payables*

Outstanding balances between funds reported as "due to/from other funds" include outstanding charges by one fund to another for services or goods, subsidy commitments outstanding at year-end and other miscellaneous receivables/payables between funds.

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General	\$ 172,674	\$ 105,644
Athletics	-	9,694
Food Service	99,266	100,339
Public Improvement	-	13,400
2001 Debt Retirement	-	13,372
Infrastructure	<u>6,378</u>	<u>35,869</u>
	<u>\$ 278,318</u>	<u>\$ 278,318</u>

#### *Transfers and Payments*

Transfers and payments within the reporting entity are substantially for the purposes of subsidizing operating functions, funding capital projects and asset acquisitions or maintaining Debt Service on a routine basis. Resources are accumulated in a fund to support and simplify the administration of various projects or programs.

The government-wide statement of activities eliminates transfers as reported within the segregated governmental activities columns.

## NOTES TO FINANCIAL STATEMENTS - Continued

The following schedule reports transfers and payments within the reporting entity:

Transfer In	Amount	Transfer Out	Amount
Other Governmental Funds		Major Governmental Funds	
Athletic Fund	\$ 70,000	General Fund	\$ 73,000
Food Service Fund	<u>3,000</u>		
	<u>\$ 73,000</u>		<u>\$ 73,000</u>

### NOTE I - PENSION PLAN

The School District contributes to the Michigan Public School Employees' Retirement Systems ("MPSERS"), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan, Department of Management & Budget Office of Retirement Services ("ORS"). MPSERS provides retirement, disability, death and post-employment health benefits to plan members and beneficiaries. Member Investment Plan ("MIP") participants receive enhanced benefits compared to Basic Plan participants. Benefits are safeguarded by Article IX, Section 24, of the Michigan Constitution. Public Act 300 of 1980, as amended, assigns authority to establish and amend benefit provisions to the State Legislature. MPSERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to MPSERS, P.O. Box 30171, Lansing, MI 48909-7671, by calling (517) 322-5103, or on the State of Michigan's website at [www.Michigan.gov](http://www.Michigan.gov).

#### ***Funding Policy***

Plan members who participate in MIP are required to contribute 3.0% to 4.5% of their annual covered salary; plan members who participate in the Basic Plan may not contribute to the Plan; and the School District is required to contribute at an actuarially determined rate using the individual entry age actuarial cost method. The rate, as a percentage of annual covered payroll, was 17.74% for the period July 1, 2007 to September 30, 2007 and 16.72% for the period October 1, 2007 to June 30, 2008. The contribution requirements of Plan members and the School District are established and may be amended by the State Legislature. The School District's contributions to MPSERS for the years ended June 30, 2008, 2007 and 2006 were \$445,070, \$429,375 and \$403,281, respectively, which is equal to the required contribution for each year.

#### ***Post-Employment Benefits***

Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental and vision coverages. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10% of the monthly premium amount for the health, dental and vision coverages. Required contributions for post-employment health care are included as part of the School District's total contribution to the MPSERS plan discussed above.

**NOTE J - COMMITMENTS AND CONTINGENCIES**

***Federal and State Grants***

In the normal course of operations, the School District receives grant funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authorities, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

***Collectively Bargained Employment Agreements***

The teachers of the School District are organized under the Leland Public School Education Association. The Board of Education and the Leland Public School Education Association have a contract for the years ending June 30, 2006 through August 31, 2008.

The support personnel at the School District are organized under the Northern Michigan Education Association. The Board of Education and the Northern Michigan Education Association have a contract for June 30, 2006 through June 30, 2008.

***Capital Projects***

The Sinking Fund records capital project activities funded with a Sinking Fund millage. For these funds, the School District has complied with the applicable provisions of Section 1212(1) of the Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and Sinking Funds in Michigan.

**NOTE K - SUBSEQUENT EVENT**

In July 2008, the School District received proceeds in the amount of \$200,000 from the sale of 2008 School Technology and Equipment Bonds (General Obligation - Unlimited Tax). Interest is payable semi-annually at a rate of 3.75%. Principal payments are scheduled to begin in May 2009. The bond will be repaid with proceeds received from a tax levy.

## **REQUIRED SUPPLEMENTARY INFORMATION**



# Leland Public School

## BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

Year Ended June 30, 2008

	<u>Budgeted Amounts</u>		Actual (Budgetary Basis)	<u>Variances - Positive (Negative)</u>	
	<u>Original</u>	<u>Final</u>		<u>Original to Final</u>	<u>Final to Actual Total</u>
Revenues					
Local and intermediate sources	\$ 2,950,442	\$ 3,404,579	\$ 3,301,761	\$ 454,137	\$ (102,818)
State revenues	1,272,182	1,215,761	1,249,223	(56,421)	33,462
Federal revenues	79,161	88,298	88,798	9,137	500
Other	<u>82,060</u>	<u>111,410</u>	<u>210,348</u>	<u>29,350</u>	<u>98,938</u>
Total revenues	<u>4,383,845</u>	<u>4,820,048</u>	<u>4,850,130</u>	<u>436,203</u>	<u>30,082</u>
Expenditures					
Instruction	2,855,876	3,149,490	3,182,436	(293,614)	(32,946)
Supporting Services	<u>1,509,881</u>	<u>1,625,227</u>	<u>1,645,608</u>	<u>(115,346)</u>	<u>(20,381)</u>
Total expenditures	<u>4,365,757</u>	<u>4,774,717</u>	<u>4,828,044</u>	<u>(408,960)</u>	<u>(53,327)</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	18,088	45,331	22,086	27,243	(23,245)
Other financing sources (uses)					
Operating transfers out	<u>(100,000)</u>	<u>(78,000)</u>	<u>(73,000)</u>	<u>22,000</u>	<u>5,000</u>
<b>REVENUE OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)</b>	(81,912)	(32,669)	(50,914)	49,243	(18,245)
Fund balance, beginning of year	<u>424,240</u>	<u>424,240</u>	<u>424,240</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 342,328</u></u>	<u><u>\$ 391,571</u></u>	<u><u>\$ 373,326</u></u>	<u><u>\$ 49,243</u></u>	<u><u>\$ (18,245)</u></u>

**COMBINING FINANCIAL STATEMENTS OF  
NON-MAJOR GOVERNMENTAL FUNDS**

# Leland Public School

## COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS

June 30, 2008

	Special Revenue Funds			Capital Project Funds		Total Non-Major Governmental
	Food Service	Athletics	Total	Infrastructure Fund	Public Improvement Fund	
<b>ASSETS</b>						
Cash and cash equivalents	\$ 13,764	\$ 10,777	\$ 24,541	\$ 100,093	\$ 67,246	\$ 191,880
Accounts receivable	-	268	268	-	-	268
Due from other funds	99,266	-	99,266	6,378	-	105,644
Inventory	<u>3,945</u>	<u>-</u>	<u>3,945</u>	<u>-</u>	<u>-</u>	<u>3,945</u>
 Total assets	 <u>\$ 116,975</u>	 <u>\$ 11,045</u>	 <u>\$ 128,020</u>	 <u>\$ 106,471</u>	 <u>\$ 67,246</u>	 <u>\$ 301,737</u>
 <b>LIABILITIES AND FUND BALANCES</b>						
<b>LIABILITIES</b>						
Due to other funds	<u>\$ 100,339</u>	<u>\$ 9,694</u>	<u>\$ 110,033</u>	<u>\$ 35,869</u>	<u>\$ 13,400</u>	<u>\$ 159,302</u>
 <b>FUND BALANCES</b>						
Reserved for prepaid expenses and inventory	3,945	-	3,945	-	-	3,945
Reserved for school-based activities	12,691	1,351	14,042	-	-	14,042
Reserved for capital projects	<u>-</u>	<u>-</u>	<u>-</u>	<u>70,602</u>	<u>53,846</u>	<u>124,448</u>
 Total fund balances	 <u>16,636</u>	 <u>1,351</u>	 <u>17,987</u>	 <u>70,602</u>	 <u>53,846</u>	 <u>142,435</u>
 Total liabilities and fund balances	 <u>\$ 116,975</u>	 <u>\$ 11,045</u>	 <u>\$ 128,020</u>	 <u>\$ 106,471</u>	 <u>\$ 67,246</u>	 <u>\$ 301,737</u>

# Leland Public School

## COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS

Year Ended June 30, 2008

	<u>Special Revenue Funds</u>			<u>Capital Project Funds</u>		
	<u>Food Service</u>	<u>Athletic</u>	<u>Total</u>	<u>Infrastructure Fund</u>	<u>Public Improvement Fund</u>	<u>Total Non-Major Governmental</u>
Revenues						
Property taxes	\$ -	\$ -	\$ -	\$ 139,137	\$ -	\$ 139,137
Interest	443	444	887	2,220	2,320	5,427
State revenues	12,022	-	12,022	-	-	12,022
Federal revenues	109,700	-	109,700	-	-	109,700
Other	<u>125,445</u>	<u>35,281</u>	<u>160,726</u>	<u>-</u>	<u>-</u>	<u>160,726</u>
Total revenues	<u>247,610</u>	<u>35,725</u>	<u>283,335</u>	<u>141,357</u>	<u>2,320</u>	<u>427,012</u>
Expenditures						
Food Service	257,941	-	257,941	-	-	257,941
Athletic	-	108,428	108,428	-	-	108,428
Other	-	-	-	43,261	-	43,261
Capital outlay	<u>-</u>	<u>-</u>	<u>-</u>	<u>27,494</u>	<u>50,433</u>	<u>77,927</u>
Total expenditures	<u>257,941</u>	<u>108,428</u>	<u>366,369</u>	<u>70,755</u>	<u>50,433</u>	<u>487,557</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	(10,331)	(72,703)	(83,034)	70,602	(48,113)	(60,545)
Other financing sources (uses)						
Operating transfers in	<u>3,000</u>	<u>70,000</u>	<u>73,000</u>	<u>-</u>	<u>-</u>	<u>73,000</u>
<b>REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)</b>	(7,331)	(2,703)	(10,034)	70,602	(48,113)	12,455
Fund balance, beginning of year	<u>23,967</u>	<u>4,054</u>	<u>28,021</u>	<u>-</u>	<u>101,959</u>	<u>129,980</u>
Fund balance, end of year	<u><u>\$ 16,636</u></u>	<u><u>\$ 1,351</u></u>	<u><u>\$ 17,987</u></u>	<u><u>\$ 70,602</u></u>	<u><u>\$ 53,846</u></u>	<u><u>\$ 142,435</u></u>



Business and Financial Advisors  
*Our clients' success – our business*

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Michael D. Shaw, CPA  
Mary F. Krantz, CPA  
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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Board of Education  
Leland Public School

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of ***Leland Public School*** (the "School District") as of and for the year ended June 30, 2008, which collectively comprise the School District's basic financial statements and have issued our report thereon dated October 2, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

***Internal Control Over Financial Reporting***

In planning and performing our audit, we considered the School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School District's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the School District's financial statements that is more than inconsequential will not be prevented or detected by the School District's internal control.

We consider the following deficiencies to be significant deficiencies in internal control:

#### *Segregation of Duties*

The size of the administrative staff precludes proper segregation of duties for optimal internal control. Ideally, the internal control system of the School District should segregate the accounting responsibilities from employees who have access to physical assets such as cash, investments and payroll, from authorization and approval of transactions and account reconciliations. It is our understanding that the Board is very active in the financial oversight of the School District's operations and has established an environment of active oversight responsibility. Although there is no indication of any significant errors or misappropriation of assets, we recommend the Board continue its financial oversight involvement due to the inherent lack of segregation of duties.

#### *Reporting Financial Data*

The above definition of a significant deficiency includes any condition that adversely affects the School District's ability to report financial data in accordance with generally accepted accounting principles ("GAAP"). As a matter of convenience, the School District has always relied upon its auditors to prepare financial statements and related notes and supplemental schedules for external reporting in accordance with GAAP. As a consequence, the School District has not developed the tools and resources necessary to enable its employees to prepare reports in conformity with GAAP in the normal course of performing their assigned functions. The School District has committed the resources necessary to meet its internal reporting needs. In this regard, the School District is not unlike many other schools of its size.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that each of the significant deficiencies described above is a material weakness.

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Education, management, Michigan Department of Education, Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Dennis, Gartland & Niergarth*

October 2, 2008



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## AUDIT-RELATED COMMUNICATIONS

To the Board of Education  
Leland Public School

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Leland Public School (the "School District") for the year ended June 30, 2008 and have issued our report thereon dated October 2, 2008. Professional standards require that we provide you with the following information related to our audit.

### ***Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards***

As stated in our engagement letter dated July 25, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

### ***Compliance***

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the School District's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

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### ***Internal Controls***

As part of our audit, we considered the internal control of the School District. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We have issued reports describing our findings.

The following additional matters are not considered to be material weaknesses or significant deficiencies in internal control, but are opportunities to strengthen internal controls, reporting and operating efficiency:

### ***Budget Violations***

The purpose of Public Act 621 is to provide the structure necessary for a close relationship between the administration and the local school board with regard to the establishment of budgets and appropriations. During the course of the audit, we noted budget violations in instruction and supporting services expenditures. We understand there are instances when unbudgeted items arise. We would like to stress to management and the Board the importance of budget monitoring throughout the year.

### ***Property Tax and State Aid Revenue***

Throughout the year, changes in the taxable value of non-homestead property will affect how much property tax revenue the School District receives during the year. These changes will also affect how much State aid revenue the School District will receive or be required to reimburse. We recommend the School District monitor these items carefully for any necessary adjustments.

### ***Planned Scope and Timing of the Audit***

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter dated July 25, 2008.

### ***Qualitative Aspects of Accounting Practices***

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Leland Public School are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. We noted no transactions entered into by the School District during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statement in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. However, we do not consider such estimates to be particularly sensitive.

### ***No Difficulties Encountered in Performing the Audit***

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### ***Corrected and Uncorrected Misstatements***

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatement detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole, except as described below:

### ***Recorded Adjustments***

We proposed an entry to record the proceeds from a loan and the capital outlay for the purchase of a new bus.

### ***No Disagreements with Management***

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### ***Management Representations***

We have requested certain representations from management that are included in the management representation letter dated October 2, 2008.

### ***Management Consultations with Other Independent Accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### ***Other Audit Findings or Issues***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Leland Public School's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Education and management of Leland Public School and is not intended to be and should not be used by anyone other than these specified parties.

We are pleased to serve as the School District's auditors. If there are any questions about the audited financial statements or the contents of this letter, we would welcome the opportunity to discuss them at your convenience.

*Dennis, Gartland & Niergarth*

October 2, 2008